STATE OF GEORGIA)
)
COUNTY OF COBB)

VERIFICATION

PERSONALLY appeared before me Charles R. Parmelee, who, being duly sworn, states: That he is Principal, Parmelee & Associates and that the testimony attached hereto as testimony of Charles R. Parmelee, is based upon information that he believes to be true and correct.

Charles R. Parmelee

Sworn to before me this
18th day of October, 2010

INGA PICKETT
Notary Public
Douglas County
State of Georgia
My Commission Expires Jun 22, 2011

BEFORE

THE SOUTH CAROLINA PUBLIC SERVICE COMMISSION

TESTIMONY OF CHARLES R. PARMELEE

DOCKET NO. 2010-181-E

Q. PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS ADDRESS.

A. My name is Charles R. Parmelee and I am an independent utility consultant and Principal of Parmelee & Associates, 1025 Princeton Walk, Marietta, Georgia 30068.

Q. WHAT IS YOUR EDUCATIONAL BACKGROUND?

A. I graduated from Georgia State University in 1970 with a Bachelor of Arts degree in Mathematics.

Q. DESCRIBE YOUR BUSINESS EXPERIENCE RELATED TO UTILITY RATE DESIGN AND COST OF SERVICE.

A. I was employed by Florida Power & Light Company in Miami, Florida, in 1972 as a computer programmer working on engineering, accounting, and utility rate applications. In 1975 I was promoted to the position of Load Research Analyst in the Rate Department. I performed load research analysis, and assisted in the areas of cost of service analysis and rate design. In 1978, I accepted a position as a Rate Design Specialist with Georgia Power Company in Atlanta, Georgia. I worked there until 1979 in the areas of rate design and revenue forecasting. I was employed from 1980 to 1991 by Ebasco Services Incorporated as a consultant to a number of domestic and foreign utility

companies and regulatory agencies. My assignments included cost of service, rate design, load research, electric generating plant appraisals, and load management evaluation. Since February, 1991, I have worked as an independent consultant, primarily doing rate design and cost of service work.

Q. HAVE YOU TESTIFIED AS AN EXPERT WITNESS REGARDING UTILITY RATE MATTERS BEFORE REGULATORY COMMISSIONS?

A. Yes. I have testified on utility rate matters eight times before the South Carolina Public Service Commission, and also before the Florida Public Service Commission, the Arkansas Public Service Commission, the Georgia Public Service Commission, the Nebraska Public Power District, and the Bermuda Price Control Commission.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I am testifying on behalf of my client, Lockhart Power Company, regarding the preparation of the cost of service studies and rate schedules set forth in the Exhibits of this filing.

Q. PLEASE DESCRIBE THE COST OF SERVICE STUDIES YOU PREPARED FOR LOCKHART POWER COMPANY.

A. I prepared four cost of service studies: Historical, Pro Forma, Equal Rates of Return, and Proposed. Included in Exhibit B are the full allocation details for the Historical and Pro Forma studies and the summary pages for the Equal Rates of Return and Proposed studies.

The Historical Cost of Service Study reflects the costs according to Lockhart's books for the test year ended December 31, 2009. The rate of return for the retail classes was 9.60%.

The Pro Forma Study differs from the Historical Study as a result of the pro forma adjustments listed and summarized in Exhibit A3. The largest expense adjustment is a decrease in purchased power expense to reflect the cost savings resulting from the acquisition of the City of Union diesel generators and other known factors affecting purchased power expense. This reduction in purchased power costs requires an offsetting pro forma adjustment reducing revenues, due to Lockhart's Purchased Power Adjustment Clause. Revenue was also adjusted to include revenues from off-system sales from the Wellford Landfill generation Plant. Other adjustments reflect known and measurable changes in wages, depreciation, taxes, rate base and operating expenses associated with new generating plants, and regulatory expense. The Pro Forma Study yielded an overall rate of return of 5.56%, and a rate of return of 6.45% for the retail classes as shown in Exhibit B2, page 51, line 30.

The Equal Rates of Return study includes the Pro Forma adjustments and sets class revenues at the levels required to yield a rate of return of 12.50% for each rate class.

The Proposed Study includes the Pro Forma adjustments and the proposed revenues for each retail rate class. The overall retail rate of return is 12.50% for the Proposed Study, but all of the individual retail rate classes vary from the average as shown in Exhibit B4 page 2 line 30. The Residential class yields a below average 11.16% rate of return, as do the Commercial class at

10.66%, the Street Lighting class at 11.17%, and the Outdoor Lighting Class at 10.97%. The Industrial class yields an above average rate of return of 18.78%. The revenues shown for each retail rate class in the Proposed Study are the revenues that would be produced by the rates proposed in this filing, based on customer usage in the test year ended December 31, 2009.

Q. WHAT METHODS DID YOU USE TO DEVELOP THESE COST OF SERVICE STUDIES?

A. I used the traditional electric utility cost of service methods of functionalization, classification, and allocation of costs, as described in the Electric Utility Cost Allocation Manual published by the National Association of Regulatory Utility Commissioners.

Q. DO THESE METHODS DIFFER SUBSTANTIALLY FROM THOSE USED IN PREVIOUS COST OF SERVICE STUDIES DONE FOR LOCKHART?

A. No, the methodology and format of the cost of service studies filed in this proceeding are almost identical to those of the previous Lockhart rate filing, Docket No. 2007-33-E. However there is a change in the allocation factor used to allocate the demand related portion of purchased power expense. I used the 12 Coincident Peak method in the previous study and the Single Annual Coincident Peak method in this 2009 study. This change resulted from a change in the wholesale rate format under which Lockhart purchases power. Prior to 2009 the wholesale rate used a billing demand based on the Lockhart demand coincident with the wholesale supplier's monthly peak, but the rate

implemented in 2009 bills demand costs based on the single annual coincident peak. Therefore I found the Single Annual Coincident Peak method to be more appropriate for the allocation of the demand portion of purchased power expense.

Q. HOW DID YOU DETERMINE THE REVENUE REQUIREMENTS FOR EACH RATE CLASS?

A. I first determined the revenues required for each rate class to yield a rate of return of 12.50%. Those revenues are compared in Exhibit A4 to the revenues under the present rates. To reach an equal rate of return for each rate class would require reducing Industrial class rate revenues by 8.12% increasing Residential rate revenues by 6.14% and increasing Commercial revenues by 8.59%. Lighting class revenues would increase by about 8% to 10%. Although Lockhart Power Company supports the goal of basing rates on cost of service, I recommended that this goal be deferred in order to reduce the impact of the increase on Residential, Commercial, and lighting customers. Therefore, I propose to maintain the Industrial revenues at the same level, and allocate the indicated Industrial revenue decrease to the Residential, Commercial, and Lighting classes proportional to the Equal Rates of Return increase amounts. This approach reduces the Residential rate increase from 6.14% to 3.20%, the Commercial increase from 8.59% to 4.48%, and the lighting classes down to about 5%, as shown in Exhibit A4 lines 19 and 31.

Q. IS THIS METHOD SIMILAR TO THE METHOD OF DETERMINING CLASS

RATES OF RETURN IN OTHER LOCKHART RATE FILINGS?

A. This method is similar to the method used in the last filing, Docket 2007-33-E, and also similar to the methods used in the five prior filings. These general methods of determining rates of return and class revenue requirements were proposed by Lockhart, supported by the Commission Staff, and approved by this Commission in Docket 89-178-E, Docket 90-480-E, Docket 91-671-E, Docket 2000-0091-E, Docket 2002-122-E, and Docket 2007-33-E.

Q. IN YOUR OPINION, IS THE PROPOSED METHOD OF DETERMINING CLASS REVENUE REQUIREMENTS, FAIR, REASONABLE, AND CONSISTENT WITH GENERALLY ACCEPTED REGULATORY PRACTICE?

A. Yes, it is. From my experience, it is more common to find utilities moving rates toward equal rates of return than it is to find utilities that have achieved that goal.

Q. WHAT IS THE AVERAGE RATE REVENUE PERCENTAGE INCREASE TO EACH RATE CLASS?

A. Those figures are shown in Exhibit A4, line 31. The percentage revenue increase to each class is: Industrial, 0.00%; Residential, 3.20%; Commercial, 4.48%; Street Lighting, 4.49%; and Outdoor Lighting, 4.98%. The total increase in retail revenues is 2.51%.

Q. IN EXHIBIT A4 YOU SHOW THE REVENUES UNDER PRESENT RATES FROM THE HISTORICAL CASE BUT COMPARE THE PROPOSED RATES

TO HISTORICAL REVENUES ADJUSTED FOR THE MONARCH PLANT CLOSING. WHY DID YOU REMOVE THE MONARCH PLANT REVENUES FOR THE COMPARISON?

A. I show the Historical 2009 Case revenues in the first six lines of Exhibit A4 to tie the revenues back to the Historical cost of service and booked revenues. A large industrial customer, the Monarch Plant, closed in late 2009 and both revenues and expenses associated with this service were removed from the Proforma Case. To use the Historical Case revenues, which include the Monarch Plant revenues in 2009, for comparison to the proposed rate revenues would distort the comparisons. The rate revenue comparisons should show the effect of the proposed rates on existing customers, and therefore the Monarch revenues should be removed from the Historical revenues for the comparison. The revenues shown on lines 7 through 11 of Exhibit A4 are the Historical Case revenues less the Monarch Plant revenues.

Q. YOU REFERENCED LINE 31 OF EXHIBIT A4 AS THE RATE REVENUE INCREASE. WHAT IS THE DIFFERENCE IN THE RATE REVENUE INCREASE SHOWN ON LINES 30 AND 31 OF EXHIBIT A4 AND THE TOTAL REVENUE INCREASE SHOWN ON LINES 32 and 33?

A. The Rate Revenue Increase is the increase in revenues from the retail rate schedules and includes the Purchased Power Adjustment revenues and Extra Facilties charges. This is the increase in revenues for each class of Lockhart customers relative to revenues in 2009. The Total Revenue Increase includes "Other Revenues" collected by Lockhart and allocated to the rate classes in the

Historical Case and also in the Proposed Case. The difference in "Other Revenues" of $358,091 on line 25 vs. $37,419 on line 10 is $320,672 and accounts for the difference between the Total Revenue Increase and the Rate Revenue Increase. This difference is due to the pro forma adjustment for off-system sales from the output of the Wellford Landfill Generation Plant. The total adjustment is $643,741 and the retail allocated portion is $320,672. These revenues as received will be credited to Lockhart's retail customers through the proposed Power Adjustment Clause Schedule O. Therefore the Total Revenue Increase of $526,063 is made up of $205,391 from Lockhart's retail customers and $320,672 from an off-system purchaser. So to evaluate the impact of the proposed increase on Lockhart's retail customers, the Rate Revenue Increase is the appropriate measure.

Q. HOW DID YOU DESIGN RATES TO RECOVER THE PROPOSED CLASS REVENUES?

A. Residential Service, Schedule R, and Residential Service All Electric, Schedule RA, retain the same rate format previously approved by this Commission. The customer charge was increased from $6.50 to $7.50 per month and the energy charges in both Schedules were increased proportionally to achieve the required revenue levels. The proposed residential rates represent an average increase of 3.20% over the present rates and most residential customers will receive increases in the range of 3.0% to 3.7%.

General Service Commercial, Schedule C3, and General Service All Electric, Schedule GA retain the previously approved rate structure. That

structure consists of a customer charge, a demand charge for kilowatts of billing demand in excess of 30 kw, and three blocks of energy charges. The energy charges are separated into categories above and below 200 hours of use of the billing demand in order to reflect the relationship of customer load factor and customer peak diversity. The first 200 hours of use is further divided into two blocks at the 3,000 kilowatt-hour level. The 3,000 kilowatt-hour block is necessary in order to recover demand related costs associated with the first 30 kilowatts of demand, which is not billed, and to reflect the higher unit distribution related costs associated with customers using relatively few kilowatt-hours each month.

To determine the correct rate levels, the costs allocated in the cost of service study to the commercial class were separated into four categories: 1) customer costs; 2) customer non-coincident peak related distribution costs; 3) class non-coincident peak related production, transmission, distribution, and purchased power costs; and 4) energy related costs. The customer charge was increased to $7.50 per month, and the remainder of the customer related costs were allocated to the first energy block, as were demand costs associated with the first 30 kilowatts of demand.

The customer non-coincident peak related costs were directly allocated to the demand charge. The class non-coincident peak related costs were allocated to the demand charge and the energy blocks in a manner which reflects the relationship between customer load factor and peak diversity. This method allocates less demand related costs to the kilowatt-hours in excess of 200 hours of use of the demand, since demand responsibility increases at a

comparatively low rate as a customer's load factor increases beyond 200 hours of use. The proposed General Service rate levels are a compromise between these costs, Lockhart's average and incremental purchased power cost, and an allowance for adverse customer bill impacts.

The demand charge is increased relative to the energy blocks because demand related costs have increased relative to energy related costs. The primary reason for this shift in costs is due to the fact that the wholesale power rate schedule under which Lockhart purchases power from Duke Energy has higher demand charges relative to energy charges and this shift is reflected in Lockhart's purchased power costs.

As a result of the higher demand related costs, low load factor customers may have bill increases and high load factor customers may have bill decreases, but this difference is fully justified by the cost of service studies. The proposed General Service rates, Schedule C3 and GA, represent an average increase of 4.48% over the presently effective rates. However, individual customers may have bill increases or decreases depending on usage characteristics. For most individual customers, increases will be limited to about 8% and some customers will have decreases of about 6%.

Schedule I, Industrial Service also retains the rate structure previously approved by this Commission. Although the Industrial class revenues were set at the same level as the test year, the rates required adjustment in order to reflect the changes in the power cost adjustment, and also to reflect the cost of service. The rate levels for the proposed Schedule I were determined in generally the same manner as those for the General Service Rates. The

proposed Schedule I produces the same total revenues as the present rate, but individual customers may have bill increases or decreases depending on usage characteristics. Some low load factor customers will have increases as much as 13.2% and some high load factor customers will have decreases of 6.5%. These differentials are justified by the results of the cost of service studies.

Although the base rate charges are increased, the impact on total revenues is zero for this class. The reason for this can be seen in Exhibit A4 lines 28 through 31. Base rate revenues for the Industrial class increase but the total rate revenue increase is zero. This is because all of the Purchased Power Adjustment revenues from the present rates have been rolled into the base rates. For the Industrial class the present rate PPA revenues were $988,472 as shown on line 8 as compared to zero for the proposed rates on line 23. Therefore the revenue from the proposed Industrial base rate will collect the same revenue as the present base rate plus PPA revenue in the Historical Case.

Schedule OL, Outdoor Lighting and Schedule SL, Street Lighting were adjusted proportionally to produce the required revenue. The proposed Schedule OL and SL represent increases of 4.49% and 4.98% respectively over the presently effective schedules.

Schedule EF, Extra Facilities was not changed.

Q. EXPLAIN THE CHANGES YOU MADE TO THE PURCHASED POWER ADJUSTMENT CLAUSE, SCHEDULE O?

A. The proposed Schedule O has been renamed Power Adjustment Clause, because it now incorporates adjustments for fuel costs and credits for off-system sales. The proposed schedule defines the monthly adjustment as the sum of the purchased power cost and fuel cost less off-system sales revenue credits divided by the total kilowatt-hours billed less the base amount.

I also recomputed the base amount, which represents the amount of power cost which is included in each rate schedule. This figure is determined by dividing the total power cost less revenue credits for the pro forma adjusted test year by the total pro forma kilowatt-hour sales. This computation yields a base amount of 3.8947 cents per kilowatt-hour. The computation is shown in Exhibit A6.

Q. WHAT IS THE PURPOSE OF THE POWER ADJUSTMENT CLAUSE?

A. This clause is necessary to fairly protect the interests of both Lockhart and its customers. The clause automatically adjusts Lockhart's revenues to reflect changes in power costs and off-system sales revenues. Without this mechanism, Lockhart's income and return on investment could fluctuate wildly, up or down, with changes in power costs and revenues.

Q. DOES THIS CONCLUDE YOUR PREPARED TESTIMONY?

A. Yes.